

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORT
For the Fiscal Year Ended June 30, 2010

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
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June 30, 2010

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Greenville - Greene County Airport Authority
Greenville, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund of the Greenville - Greene County Airport Authority (the "Authority") as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority as of June 30, 2010, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The schedule of expenditures of state awards is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedules of expenditures of state and federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Blackburn, Childers + Steagall, PLC
BLACKBURN, CHILDERS & STEAGALL, PLC

February 1, 2011

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2010

| | Total Governmental Activities |
|---|-------------------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 380,919 |
| Accounts Receivable | 6,117 |
| Grants Receivable | 148,602 |
| Prepaid Expenses | 2,296 |
| Bond Issue Costs | 12,365 |
| Capital Assets | |
| Land | 1,038,791 |
| Construction in Progress | 2,843,455 |
| Buildings and Improvements | 3,935,897 |
| Other Fixed Assets | 252,400 |
| Less: Accumulated Depreciation | (1,852,951) |
| TOTAL ASSETS | 6,767,891 |
| LIABILITIES | |
| Accounts Payable | 157,427 |
| Retainage Payable | 36,165 |
| Accrued Interest | 15,321 |
| Unearned Revenues | 10,126 |
| Long-Term Liabilities | |
| Due within one year | 74,000 |
| Due within more than one year | 926,000 |
| TOTAL LIABILITIES | 1,219,039 |
| NET ASSETS | |
| Invested in Capital Assets, Net of Related Debt | 5,229,957 |
| Unrestricted | 318,895 |
| TOTAL NET ASSETS | \$ 5,548,852 |

The accompanying notes are an integral part of these financial statements.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

| <u>FUNCTIONS/PROGRAMS</u> | <u>Expenses</u> | PROGRAM REVENUES | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | |
|--------------------------------------|-------------------|---------------------------------|---|---|------------------|
| | | <u>Charges for Services</u> | <u>Capital Grants and Contributions</u> | <u>Primary Government Governmental Activities</u> | <u>Total</u> |
| <u>PRIMARY GOVERNMENT</u> | | | | | |
| GOVERNMENTAL ACTIVITIES | | | | | |
| Airport Operations | \$ 263,927 | 260,512 | 2,040,453 | 2,037,038 | 2,037,038 |
| Interest on Long-Term Debt | 47,915 | - | - | (47,915) | (47,915) |
| TOTAL GOVERNMENTAL ACTIVITIES | \$ 311,842 | 260,512 | 2,040,453 | 1,989,123 | 1,989,123 |
| GENERAL REVENUES | | | | | |
| Fuel Taxes | | | | 10,394 | 10,394 |
| Intergovernmental Revenues | | | | 60,760 | 60,760 |
| TOTAL GENERAL REVENUES | | | | 71,154 | 71,154 |
| CHANGE IN NET ASSETS | | | | 2,060,277 | 2,060,277 |
| NET ASSETS - BEGINNING | | | | 3,488,575 | 3,488,575 |
| NET ASSETS - ENDING | | | | \$ 5,548,852 | 5,548,852 |

The accompanying notes are an integral part of these financial statements.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2010

| | Total General Fund |
|---|-----------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 380,919 |
| Accounts Receivable | 6,117 |
| Grants Receivable | 148,602 |
| Prepaid Expenses | 2,296 |
| TOTAL ASSETS | \$ 537,934 |
| LIABILITIES AND FUND BALANCES | |
| LIABILITIES | |
| Accounts Payable | \$ 157,427 |
| Retainage Payable | 36,165 |
| Deferred Revenue | 10,126 |
| TOTAL LIABILITIES | 203,718 |
| FUND BALANCES | |
| Unreserved | 334,216 |
| TOTAL FUND BALANCES | 334,216 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$8,070,543 and the accumulated depreciation is \$1,852,951. | 6,217,592 |
| Bond issue costs are treated as an expenditure when paid in governmental funds. They are considered an asset for full accrual purposes and amortized over the life of the debt. | 12,365 |
| Accrued interest is not due and payable in the current period and, therefore, is not reported as a liability in the funds. | (15,321) |
| Long-term liabilities, including both bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds. | (1,000,000) |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ 5,548,852 |

The accompanying notes are an integral part of these financial statements.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUND
 For the Fiscal Year Ended June 30, 2010

| | Total General Fund |
|--------------------------------|-----------------------|
| REVENUES | |
| Charges for Sales and Services | \$ 260,513 |
| Intergovernmental Revenues | 60,760 |
| Grants and Contributions | 2,349,260 |
| Flow Tax on Fuel | 10,394 |
| TOTAL REVENUES | 2,680,927 |
| EXPENDITURES | |
| Airport Operations | 152,468 |
| Debt Service | 121,781 |
| Capital Projects | 2,206,033 |
| TOTAL EXPENDITURES | 2,480,282 |
| NET CHANGE IN FUND BALANCE | 200,645 |
| FUND BALANCE, JULY 1, 2009 | 133,571 |
| FUND BALANCE, JUNE 30, 2010 | \$ 334,216 |

The accompanying notes are an integral part of these financial statements.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2010

Amounts reported for governmental activities in the Statement of Activities are different because:

| | |
|--|----------------------------|
| Net Change in Fund Balance - Total Governmental Funds | \$ 200,645 |
| <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay \$2,206,033 exceeded depreciation of \$110,577 in the current period.</p> | |
| | 2,095,456 |
| <p>Governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount reflects the change in amortization expense for the year.</p> | |
| | (883) |
| <p>Interest expense reported in the Statement of Activities does not require the use of current financial resources. Therefore it is not reported as an expenditure in the governmental funds. This amount reflects the change in interest expense for the year.</p> | |
| | 867 |
| <p>Deferred revenues decreased by this amount during the year.</p> | |
| | (308,808) |
| <p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.</p> | |
| | <u>73,000</u> |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u><u>\$ 2,060,277</u></u> |

The accompanying notes are an integral part of these financial statements.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Greeneville - Greene County Airport Authority (the "Authority") is a joint venture of the Town of Greeneville, Tennessee (the "Town") and Greene County, Tennessee (the "County"). The Authority was chartered in 1980 to develop and operate aviation facilities to service the Town and the County and is dependent upon ongoing funding from them.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, if measurable. Exceptions to this general rule included: (1) accumulated unpaid sick pay, which is not accrued; and (2) principal and interest on general obligation long-term debt, which is recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Basic Financial Statements

The Authority's basic financial statements include both the government-wide (reporting the Authority as a whole) and fund financial statements (reporting the Authority's major fund). The Authority has only one fund, the General Fund.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statements – Government-Wide Statements

In the government-wide Statement of Net Assets, the governmental activities are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets, as applicable. When both unrestricted and restricted fund resources are available for use, it is the Authority's policy to use restricted resources first.

The government-wide Statement of Activities reports both the gross and net costs of the Authority's function. The function is also supported by the general government revenues (use taxes, certain intergovernmental revenues, fees and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues. Program revenues must be directly associated with the function. Program revenues include 1) charges to customers who use or directly benefit from goods, services, or privileges provided by a given function or program and 2) grants and contributions for operation or capital requirements of a particular function or program. Taxes and other items not identifiable with a program are reported as general revenues.

The net cost (by function) is normally covered by general revenue (use taxes, intergovernmental revenues, interest income, etc.)

This government-wide focus is more on the sustainability of the Authority as an entity and the changes in the Authority's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the Authority are reported in the General Fund in the fund financial statements. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures. The fund is reported by generic classification within the financial statements.

Governmental Fund

The Governmental Fund is used by the Authority. The focus of the governmental fund measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of the financial resources) rather than upon net income. The General Fund is the general operating fund of the Authority. All financial resources are accounted for in the General Fund.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting

The Authority is not required to operate within an approved budget. However, budgets are used internally for managerial purposes.

Cash and Cash Equivalents

The Authority considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America required management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Capital assets, which include land, land improvements, buildings and equipment, are reported in the government-wide financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, with expected useful lives of greater than one year. Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

| | |
|-------------------|---------------|
| Land Improvements | 30 – 40 years |
| Buildings | 40 years |
| Equipment | 5 – 25 years |

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - DEPOSITS AND INVESTMENTS

The Town of Greeneville is responsible for receiving and disbursing funds of the Authority. Various restrictions on deposits and investments are imposed by state statutes. These restrictions are summarized as follows:

DEPOSITS: All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the Town of Greeneville. Deposits with savings and loan associations must be collateralized by one of the following methods: 1) by an amount equal to 110% of the face amount of uninsured deposits if the collateral is of the same character as that required for other financial institutions; 2) by an irrevocable letter of credit issued by the Federal Home Loan Bank; or 3) by providing notes secured by first mortgages or first deeds of trust upon residential real property located in Tennessee. The promissory notes must be in an amount equal to 150% of the amount of uninsured deposits.

INVESTMENTS: State statutes authorize the Town to invest in treasury bonds, notes or bills of the United States; nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the State Loan Marketing Association; other obligations not listed above which are guaranteed as to principal and interest by the United States or any of its agencies; other evidence of deposit at State and Federal chartered banks and Savings and Loan Associations, obligations of the United States or its agencies under a repurchase agreement and money market funds whose portfolios consist of any of the foregoing investments if approved by the State Director of Local Finance and made in accordance with procedures established by the State Funding Board; the State of Tennessee Local Government Investment Pool; obligations of the Public Housing Authority and bonds of the Tennessee Valley Authority. Specifically, the LGIP was established under Tennessee Code Annotated Title 9, Chapter 4, Part 7. This investment pool is established for the use of idle funds of local governments located within the State of Tennessee. These funds are placed by the participating entity into accounts that are held and invested by the State Treasurer. The LGIP invests in time deposits, such as certificates of deposit, commercial paper, United States of America agency securities, repurchase agreements, and United States of America treasuries. By law, the LGIP is required to maintain a 90-day or less weighted-average-maturity. The fair value of shares held in the LGIP is the same as the value of the LGIP shares. The TN LGIP has not been rated by a nationally recognized statistical rating organization.

The Authority does not have a policy for interest rate risk or other credit risk other than pledging securities for amounts in excess of FDIC coverage.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The Authority's deposits are held in the Town's general operating bank account. At June 30, 2010, the carrying amount of the Authority's deposits was \$380,919. The Authority's bank balance at June 30, 2010, was fully covered by FDIC insurance and through the bank's participation in the Tennessee Collateral Pool.

NOTE 3 - OPERATING LEASE REVENUES

A portion of the airport facilities was leased to a transportation company for a twenty-five year period ending July 27, 2006, which was then renewed for an additional ten year period, with monthly payments of \$9,020. The lessee has an exclusive option to renew this agreement for two consecutive periods. This lease is classified as an operating lease.

Another operating lease agreement was entered in January 2005 for a three year period and was renewed for another three years in January 2008, with the monthly payment of \$1,435. The following is a schedule of future minimum lease payments due to the Authority as of June 30, 2010:

| | |
|------|-------------------|
| 2011 | \$ 116,852 |
| 2012 | 108,242 |
| 2013 | 108,242 |
| 2014 | 108,242 |
| 2015 | 108,242 |
| 2016 | <u>108,242</u> |
| | <u>\$ 658,062</u> |

NOTE 4 - LONG-TERM DEBT

The Town issued \$1,310,000 in General Obligation Bonds on September 1, 2003 for the purpose of providing funds to finance the acquisition, construction, equipping, installing and improvement of the airport facilities, and more particularly, the construction of additional aircraft hangar facilities at the Authority. Additionally, the bonds were issued to refund on a current basis the Town's outstanding Airport Notes. The Town loaned the proceeds of the Bonds to the Authority. Through a long-term note payable to the Town, the Authority will provide the Town with the funds required to retire the Bonds and pay interest from the proceeds of the lease on airport property.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Long-term debt at June 30, 2010, consisted of the following:

TOTAL LONG - TERM DEBT BALANCES

| | |
|--|------------|
| \$1,310,000 General Obligation Note, Series 2003 (Airport Improvement Project) due in annual installments of \$50,000 to \$90,000 through September 1, 2023; interest variable from 2.5% to 5.1%, payable semi-annually. | \$ 950,000 |
| General Obligation Capital Outlay Note, series 2000, dated April 21, 2000, due in annual installments of \$13,000 to \$26,000 through April 1, 2012; interest at 5.65%, payable semi-annually. | 50,000 |
| | 1,000,000 |
| Less: Amounts due within one year | (74,000) |
| Total Long-Term Debt | \$ 926,000 |

The following is a summary of changes in long-term debt for the year ended June 30, 2010:

| | Authority - Primary Government | | | | Amounts Due Within One Year |
|-------------------------|--------------------------------|-----------|------------|-------------------|-----------------------------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | |
| Governmental Activities | | | | | |
| General Obligation Note | \$ 1,000,000 | - | 50,000 | 950,000 | 50,000 |
| Capital Outlay Note | 73,000 | - | 23,000 | 50,000 | 24,000 |
| | | | | | |
| Governmental Activities | | | | | |
| Long-Term Debt | \$ 1,073,000 | 0 | 73,000 | 1,000,000 | 74,000 |

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Future maturities of long-term debt at June 30, 2010 are as follows:

| Year Ended June 30 | Governmental Activities | | | |
|-----------------------|-------------------------|----------------|----------------------|--------------|
| | General Obligation Note | | Capital Outlay Notes | |
| | Principal | Interest | Principal | Interest |
| 2011 | \$ 50,000 | 42,944 | 24,000 | 2,825 |
| 2012 | 55,000 | 40,971 | 26,000 | 1,469 |
| 2013 | 55,000 | 38,771 | - | - |
| 2014 | 55,000 | 36,489 | - | - |
| 2015 | 60,000 | 34,021 | - | - |
| 2016-2020 | 340,000 | 126,517 | - | - |
| 2021-2024 | 335,000 | 34,904 | - | - |
| | <u>\$ 950,000</u> | <u>354,617</u> | <u>50,000</u> | <u>4,294</u> |

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010, was as follows:

| | Primary Government | | | Ending Balance |
|---|----------------------|------------------|-----------|--------------------|
| | Beginning Balance | Increases | Decreases | |
| Governmental Activities Capital Assets, Not being Depreciated: | | | | |
| Land | \$ 1,038,791 | - | - | 1,038,791 |
| Construction in Progress | 637,422 | 2,206,033 | - | 2,843,455 |
| Total Capital Assets, Not Being Depreciated | <u>1,676,213</u> | <u>2,206,033</u> | <u>0</u> | <u>3,882,246</u> |
| Capital Assets, Being Depreciated | | | | |
| Buildings and Improvements | 3,935,897 | - | - | 3,935,897 |
| Other Fixed Assets | 252,400 | - | - | 252,400 |
| Total Capital Assets, Being Depreciated | <u>4,188,297</u> | <u>0</u> | <u>0</u> | <u>4,188,297</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | (1,522,957) | (81,287) | - | (1,604,244) |
| Other Fixed Assets | (219,417) | (29,290) | - | (248,707) |
| Total Accumulated Depreciation | <u>(1,742,374)</u> | <u>(110,577)</u> | <u>0</u> | <u>(1,852,951)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>2,445,923</u> | <u>(110,577)</u> | <u>0</u> | <u>2,335,346</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 4,122,136</u> | <u>2,095,456</u> | <u>0</u> | <u>6,217,592</u> |

Depreciation was Charged as Follows:

| | |
|--------------------|-------------------|
| General Government | <u>\$ 110,577</u> |
|--------------------|-------------------|

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 6 - FIXED BASE OPERATIONS

Fixed base operations are conducted by an unrelated contractor under a written agreement with the Authority dated April 1, 1994, which provides, among other things, for the payment of royalties on aviation fuel sales and monthly rental payments by the contractor to the Authority. Total paid for the year was \$12,168.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

At June 30, 2010, the Authority has committed funds related to runway relocation, line of sight improvements and land acquisition contracts totaling approximately \$3,700,000. The Authority has also been awarded grants from the State of Tennessee totaling \$1,822,998 as well as a \$4,568,353 federal ARRA grant. These grants are for various runway, line of sight and airport improvements which are ongoing. The grant terms end at September 2013 for all grants except for two of the State grants which end September 2014.

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority's risks of loss are covered by a commercial package insurance policy carried by the Town. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

SECTION II
SUPPLEMENTARY INFORMATION

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2010

| <u>CFDA</u> | <u>Program Name</u> | <u>State Grant Number</u> | <u>Grantor Agency</u> | <u>Balance July 1, 2009</u> | <u>Receipts</u> | <u>Expenditures</u> | <u>Balance June 30, 2010</u> |
|-------------|---|-----------------------------------|------------------------------|---------------------------------|-----------------|---------------------|----------------------------------|
| 20.106 | Grants in Aid for Airports - ARRA Pass Through Tennessee Department of Transportation - Aeronautics Division | Z-09-21-4048-00 | Department of Transportation | \$ - | <u>723,097</u> | <u>(833,032)</u> | <u>(109,935) *</u> |
| Total | | | | <u>\$ 0</u> | <u>723,097</u> | <u>(833,032)</u> | <u>(109,935)</u> |

* Receivable

** Deferred Revenue

See Independent Auditors' Report.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2010

| Program Name | State Grant Number | Grantor Agency | Balance July 1, 2009 | Receipts | Expenditures | Balance June 30, 2010 |
|-----------------------------|---------------------------------------|---|-------------------------|------------------|--------------------|--------------------------|
| Airport Maintenance Program | Z-07-03-7597-00 | State of Tennessee Department of Transportation - Aeronautics | \$ - | 14,269 | (14,269) | - |
| Airport Maintenance Program | TAD 30-555-0734-04 AERO 10-161-00 | State of Tennessee Department of Transportation - Aeronautics | - | 533,625 | (533,625) | - |
| Airport Maintenance Program | TAD 30-555-0734-04 AERO 10-160-00 | State of Tennessee Department of Transportation - Aeronautics | - | 118,125 | (118,125) | - |
| Airport Maintenance Program | TAD 30-555-0734-04 Z-09-21-3936-00 | State of Tennessee Department of Transportation - Aeronautics | (308,807) | 1,105,389 | (832,943) | (36,361) * |
| Airport Maintenance Program | Z-09-21-3378-00 | State of Tennessee Department of Transportation - Aeronautics | (2,202) | 2,202 | - | - |
| Airport Maintenance Program | Z-10-22-0203-00 | State of Tennessee Department of Transportation - Aeronautics | - | 14,960 | (17,266) | (2,306) * |
| | | | <u>\$ (311,009)</u> | <u>1,788,570</u> | <u>(1,516,228)</u> | <u>(38,667)</u> |

* Receivable

** Deferred Revenue

See Independent Auditors' Report.

SECTION III
INTERNAL CONTROL AND COMPLIANCE

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Greenville - Greene County Airport Authority
Greenville, Tennessee

We have audited the financial statements of the governmental activities and the major fund of the Greenville - Greene County Airport Authority (the "Authority") as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 2008-02.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2010-01, 2008-01 and 2008-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2010-01.

We noted certain other matters that we reported to management of the Authority in a separate letter dated February 1, 2011.

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Authority, management, Board of Directors, and others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Blackburn, Childers + Steagall, PLC
BLACKBURN, CHILDERS & STEAGALL, PLC

February 1, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Greenville – Greene County Airport Authority
Greenville, Tennessee

Compliance

We have audited the Greenville - Greene County Airport Authority (the "Authority")'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2010. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-01.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program

to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-01. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blackburn, Childers & Steagall, PLC
BLACKBURN, CHILDERS & STEAGALL, PLC

February 1, 2011

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Section I – Summary of Auditors’ Results

1. The auditors’ report based on our audit expresses an unqualified opinion on the financial statements of the Authority.
2. Three significant deficiencies, one of which is a material weakness, relating to the audit of the financial statements were disclosed during the audit.
3. One instance of noncompliance material to the financial statements of the Authority, which would be required to be reported in accordance with *Government Auditing Standards*, was disclosed during the audit.
4. One significant deficiency relating to the audit of the major federal award programs was disclosed during our audit.
5. The auditors’ report on compliance for the major federal award programs for the Authority expresses an unqualified opinion on the major federal program.
6. There is one audit finding relative to the major federal award programs that is required to be disclosed in accordance with section 510(a) of OMB Circular A-133.
7. The program tested as a major program was as follows:

| <u>Program</u> | <u>CFDA Number</u> |
|-----------------------------------|--------------------|
| Grants in Aid for Airports – ARRA | 20.106 |

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Authority was not determined to be a low-risk auditee.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Findings and Questioned Costs – Major Federal Award Programs Audit

Department of Transportation

Grants in Aid for Airports – ARRA – CFDA 20.106

2010-01: Significant Deficiency – ARRA Grant Compliance: Grants in Aid for Airports – ARRA – CFDA 20.106

Condition: The Airport did not comply with all 12 directives including directive 8 which requires the subrecipient to adopt a risk assessment plan and directive 9 which requires the completion of an action plan. In addition, there was no evidence of monitoring compliance with the wage requirements of Davis Bacon which is part of the compliance requirements for the ARRA grant funds.

Criteria: The Airport received grant funding which is specifically a part of the American Recovery and Reinvestment Act (ARRA). As a result, additional compliance requirements were effective. The Office of Tennessee Recovery Act Management (TRAM) established a listing of 12 Directives which are applicable to all recipients and subrecipients of ARRA funds. In addition, the Office of Management and Budget (OMB) has additional compliance requirements for recipients of federal grant funds.

Effect: The effect of this weakness results is a failure to properly follow required compliance guidance from the State and Federal agencies.

Recommendation: We recommend the Airport review the guidance and requirements of the TRAM as well as State of Tennessee Comptroller's office, all of which can be accessed online at www.comptroller1.state.tn.us.

Management's Response: Management agrees with the recommendation. The Airport will review the guidance and requirements of the TRAM and State of Tennessee Comptroller's Office and take steps to meet these provisions of this ARRA grant.

Findings – Financial Statement Audit – Current Year and Prior Year Findings Not Implemented:

2008-01: Significant Deficiency – Agreement (Repeated from 6-30-09 and 6-30-08)

Condition: A written agreement was not located for the arrangement with the Town.

Criteria: To provide a more clear understanding of accounting functions, reporting requirements, policies and procedures that are to be followed, a detailed and written agreement with the Town should be developed. This agreement should designate what the Town's responsibilities are for reporting, what purchasing and bid procedures are to be followed and the timing of reporting should be defined.

Effect: The effect of this deficiency creates uncertainty as to the procedures that are to be followed.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

***Findings – Financial Statement Audit – Current Year and Prior Year Findings Not Implemented
(Continued)***

Recommendation: We recommend the Town’s attorney work in conjunction with the Town and the Authority to develop a detailed and written agreement. This agreement should designate what the Town’s responsibilities are for reporting, what purchasing and bid procedures are to be followed and the timing of reporting should be defined.

Management’s Response: Greeneville and Greene County have operated joint agencies for many years based on written agreements, resolutions, and enabling state legislation without significant misunderstanding or conflict. The Airport Authority will continue to work with representatives of the Town and Greene County to further develop additional comprehensive operation guidelines, as priorities and funding permit.

2008-02: Material Weakness – Audit Adjustments (Repeated from 6-30-09 and 6-30-08)

Condition: As part of the audit, we prepared the financial statements, including the government-wide presentation and related notes and schedule of expenditures of federal awards, from information provided by the Town and the Authority. Under current professional standards, the Authority is responsible for the internal control process which includes the preparation of year-end financial statements in accordance with generally accepted accounting principles and the modified accrual basis of accounting. Several material audit adjustments were necessary to properly state account balances, including: Adjustments to accounts payable, fund balance, receivables and government-wide adjustments to debt, capital assets, depreciation, intergovernmental revenues, and net assets.

Criteria: General ledger accounts should be timely reviewed, reconciled to the corresponding subsidiary reports and adjusted. Timely and accurate financial reports should be prepared and submitted to the Board for review and approval.

Effect: The effect of this weakness creates the possibility that misstatements may not be timely noted or corrected.

Recommendation: We recommend a procedure be in place to prepare routine, monthly and year-end reconciliations for general ledger accounts to the supporting documentation and subsidiary ledgers and to make related adjustments. The procedure should require retention of supporting documentation for all entries and transfers, including indication of appropriate review and approval. These routine reconciliations and adjustments will ensure meaningful and accurate financial statements. Reconciliation of Balance Sheet and other significant accounts quickly identify errors and needed corrections. If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed. Any reconciling differences should be corrected before the books are closed for the month end. We acknowledge that management recognizes the issue and has employed Blackburn, Childers and Steagall, PLC to prepare the financial statements to conform to professional standards.

GREENEVILLE - GREENE COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

*Findings – Financial Statement Audit – Current Year and Prior Year Findings Not Implemented
(Continued)*

Management's Response: The Airport has previously relied on others to make adjusting entries of this type. The Airport Authority is committed to compliance with standards required by GASB. We appreciate your assistance in helping us achieve and maintain compliance.

Prior Year Findings Implemented:

2009-01 – Accounts Payable

2009-02 – Supporting Documentation